

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

BAC2634 – FINANCIAL ACCOUNTING & REPORTING II (All Sections / Groups)

31 MAY 2019
9.00a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **EIGHT (8)** pages excluding the cover page with **FOUR (4)** Questions only.
2. Attempt **ALL** questions. The distribution of the marks is shown at the end of each question.
3. Please write all your answers in the answer booklet provided.

QUESTION 1

The summarised accounts of Gaya Bhd for the year ended 31 December 2018 is as follows:

Statement of Profit or Loss for the year ended 31 December 2018

	<u>RM</u>
Sales	872,000
Cost of sales	<u>(320,000)</u>
	552,000
Operating expenses	<u>(220,000)</u>
	332,000
Interest expense	(40,000)
Loss on disposal of plant	(36,000)
Dividend income	8,000
Interest income	<u>4,000</u>
Profit before tax	268,000
Tax	<u>(32,000)</u>
Profit after tax	<u><u>236,000</u></u>

Statement of Financial Position as at 31 December

	<u>2018</u>	<u>2017</u>
	<u>RM</u>	<u>RM</u>
Non-current assets		
Property, plant and equipment	1,460,000	1,000,000
Current assets		
Inventories	20,000	16,000
Trade receivables	60,000	64,000
Interest receivable	1,800	1,200
Cash at bank	33,200	18,800
	<u>115,000</u>	<u>100,000</u>
Total assets	<u>1,575,000</u>	<u>1,100,000</u>

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Equity

Ordinary share capital	756,000	530,000
Retained profits	362,800	268,000

Long term liabilities

Finance lease obligations	256,000	178,600
10% bonds	45,000	15,000
	<u>1,419,800</u>	<u>991,600</u>

Current liabilities

Trade payables	48,000	43,400
Interest payables	36,200	14,000
Finance lease obligations	55,000	45,000
Overdraft	16,000	6,000
	<u>1,575,000</u>	<u>1,100,000</u>

Total Equity and Liabilities

Additional information:

- i. Detailed information of property, plant and equipment is as follows:

	<u>RM</u>
Opening balance	1,000,000
Depreciation charge for the year	(41,000)
Disposal of plant (carrying amount)	(84,000)
Acquisition	<u>585,000</u>
	<u>1,460,000</u>

- ii. A plant was disposed of at a loss of RM36,000.
 iii. A new plant was acquired through finance lease of RM100,000 and has not been recorded in the books yet.
 iv. Dividends paid was RM141,200.

Required:

Prepare a statement of cash flows for the year ended 31 December 2018 in accordance to MFRS107 *Statement of Cash Flows* using indirect method.

(Total: 15 marks)

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QUESTION 2**PART A**

On 1 January 2017, Dew Bhd purchased a new machine for cash of RM10,200,000. The machine has an expected life of ten years and residual value of RM200,000. Dew Bhd received a 50% grant towards the cost of machine on the same date. Dew Bhd's accounting policy for capital-based grants is to treat them as deferred credits and release them to income over the life of the asset to which they relate. One of the conditions of the grant is for Dew Bhd to use the machine for ten years. However, on 31 December 2018, Dew Bhd had to sell the machine. Dew Bhd had to repay the grant in full on 31 December 2018.

Required:

Prepare the journal entries to record the grant and the repayment of the grant.

(8 marks)

PART B

On 1 January 2014, Shaz Bhd acquired a sixteen-storey building in Cyberjaya. The cost of the building was RM8,000,000 and the economic life was estimated to be 30 years. Fourteen floors were rented out to tenants and two floors were used by Shaz Bhd for administrative purposes.

Beginning 1 January 2019, Shaz Bhd used all the fourteen floors of the building for production and supply of its goods. The market values of the building were as the following:

<u>Year</u>	<u>RM</u>
1.1.2015	9,500,000
1.1.2017	8,500,000
1.1.2019	15,000,000

Shaz Bhd uses the fair value model to measure its investment properties. It is the policy of Shaz Bhd. to depreciate its property, plant and equipment using the straight-line method.

Required:

Demonstrate how Shaz Bhd records the building and prepare journal entries required in 2014, 2015, 2017 and 2019 in its books.

(8 marks)

Continued...

PART C

- a. Apply MFRS 15 Revenue from Contracts with Customers to briefly explain the five steps to recognise revenue.

(5 marks)

- b. Beon Bhd, introduced a loyalty card scheme for its customers on 1 January 2018. Customers pay RM30 each for the cards and they claim a 20% discount on all future use of Beon Bhd's leisure facilities for three years from the date of purchasing the card. Beon Bhd had issued 9,000 loyalty cards on 1 January 2018. On 31 December 2018, the loyalty cards have an average unexpired period of 24 months.

(6 marks)

Required:

Show the accounting treatment for the loyalty card scheme and prepare relevant journal entries on 31 December 2018.

PART D

Yum Bhd borrows funds generally and uses them for the purpose of constructing a qualifying asset. On 1 January 2018, the carrying amount of the qualifying asset, including borrowing costs capitalised previously, is RM60 million. Expenditures incurred for the construction of the qualifying asset during the year are as the following:

	<u>RM</u> <u>million</u>
1 March 2018	30
1 July 2018	100

Yum Bhd's outstanding borrowings on 31 December 2018 and the related interest expenses for the year then ended are as the following:

	<u>Outstanding</u> <u>borrowings</u> <u>(weighted</u> <u>average)</u>	<u>Interest</u> <u>expenses</u>
	<u>RM million</u>	<u>RM</u> <u>million</u>
Bank overdrafts (10% per annum)	100	10
Short term loan (8% per annum)	300	24
Long-term bank loan (7% per annum)	600	42
	<u>1,000</u>	<u>76</u>

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Required:

Produce the carrying amount of the qualifying asset as at 31 December 2018 and prepare the journal entry to account for the borrowing costs capitalised in 2018.

(8 marks)

(Total: 35 marks)

QUESTION 3**PART A**

The R&D Division of Megamech Bhd undertakes both research and development activities of the company. Its current development project on a prototype is near completion. The costs identified in this project consists of the following:

	RM'000
Cost of materials used	10,000
Services of consultants used in the project	4,000
Fee to register a trade design	100
Amortisation of patent used in the project	200
Selling and administrative overheads allocated	2,000
Initial operating losses	1,000
Training costs to operate the asset	200
Total costs allocated	<u>17,500</u>

The other costs that relate to this project are the salaries of scientists (RM2,400,000) and depreciation of equipment used in the research and development activities (RM1,800,000). Management estimates that about 2/3 of these costs relate to the development project.

Required:

Produce the cost of the development project that shall be capitalised.

(5 marks)

PART B

- Salli Bhd acquired a building costing RM240 million on 1 January 2017. The company decided not to depreciate it in year 2017. Mr. Ali, the new accountant of the company discovered this matter when he finalised the financial statements for year 2018. He believes that the building should have an economic life of 40 years and a scrap value of RM 4 million.

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Required:

Apply MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to discuss the accounting treatment that Mr. Ali should do regarding the effects of the error on the financial statements.

(8 marks)

- b. Ena Bhd had changed its accounting policy on investment property from the cost model to the fair value model during the current year ending 31 December 2017. The cumulative effect of the change in policy for the prior years cannot be determined. On 1 January 2017, the carrying amount of the investment property was RM600,000. The fair value on that date was RM 720,000. On 31 December 2017, the fair value was determined at RM700,000.

Required:

Show the proper accounting treatment in accordance to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and produce relevant journal entries for the above transactions.

(6 marks)

PART C

Black Sheep Bhd operates its sheep breeding business in Kuala Pilah since 2015. Black Sheep Bhd purchased 2,000 sheep on 1 January 2018. The cost of purchasing the sheep was RM700,000. It is estimated that the fair value of these sheep in the market as on 31 December 2018 is RM800,000. The company estimates that the commission to dealers is about RM30,000 if they decide to sell these sheep.

Required:

In accordance to MFRS 141 *Agriculture*:

- a) Show the journal entry to record the purchase of sheep on 1 January 2018.
(2 marks)
- b) Compute how much should Black Sheep Bhd recognise the value of 2,000 sheep (biological asset) as at 31 December 2018?
(4 marks)
- c) Show the journal entry when Black Sheep Bhd recognises the value of the goats as at 31 December 2018.
(3 marks)

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PART D

Fishy Sdn Bhd started its aquaculture operations on 1 January 2019. For a start, Fishy Bhd has one large fish pond and is currently in the grow-out phase of its first and only production cycle.

In accordance to MFRS 204 *Accounting for Aquaculture*, explain the two bases to determine income in aquaculture operations to Fishy Sdn Bhd and choose the most suitable base for Fishy Sdn Bhd to determine its income for the current production cycle.
(7 marks)

(Total: 35 marks)

QUESTION 4

Siaman Tunggal Bhd (ST) specialises in the provision of photocopy machines in Puchong. It makes up its account to 31 December each year. ST held 60% of the market share. However, over the last twelve months, the general market has declined 20% due to economic slowdown.

The board of directors would like to know its performance compared with the closest competitor, Ungu Violet Bhd (UV). The comparative statements of ST Bhd and UV Bhd are presented below:

Extracts of Statement of Profit or Loss for the Year Ended 31 December 2018

	<u>ST Sdn. Bhd.</u>	<u>UV Sdn. Bhd.</u>
	<u>RM</u>	<u>RM</u>
Net Sales	6,196,140	1,356,152
Cost of goods sold	<u>(4,321,960)</u>	<u>(964,000)</u>
Gross Margin	1,874,180	392,152
Operating expenses	<u>(1,209,100)</u>	<u>(316,000)</u>
Income from operations	665,080	76,152
Interest expense	<u>(35,920)</u>	<u>(9,008)</u>
Income before income taxes	629,160	67,144
Income tax expense	<u>(218,000)</u>	<u>(26,600)</u>
Net Profit	<u>411,160</u>	<u>40,544</u>

Continued...

Extracts of Statement of Financial Position

	<u>ST Sdn. Bhd.</u>	<u>UV Sdn. Bhd.</u>
	<u>2018 (RM)</u>	<u>2018 (RM)</u>
Non-current Assets	2,085,240	558,912
Current Assets	1,303,900	333,344
Less:		
Current Liabilities	<u>(261,300)</u>	<u>(141,392)</u>
Net Assets	<u>3,127,840</u>	<u>750,864</u>

Other information

	<u>ST Sdn Bhd</u>	<u>UV Sdn Bhd</u>
	<u>2018</u>	<u>2018</u>
% of customers transferring to the company from other photostat machine suppliers	20%	8%
No of customers complaints	336	1,260
Labour turnover	10%	32%

All computations are to be rounded up to one decimal point.

Required:

- a) Compute the percentage of all items against Net sales in the Statement of profit or loss for both companies. (2 marks)
- b) Compute the following ratios for both companies:
 - i. Net profit margin (1 mark)
 - ii. Asset turnover (1 mark)
 - iii. Return on capital employed (1 mark)
 - iv. Current ratio (1 mark)
- c) Based on the above result, interpret the performance of the two companies. (9 marks)

(Total: 15 marks)

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